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C O N F I D E N T I A L SECTION 01 OF 02 KUWAIT 000399

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STATE FOR NEA/ARPI

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SUBJECT: KUWAIT FUND ON IRAQ, LEBANON, PA AND STRATEGIC
INVESTMENT INITIATIVE

REF: A. KUWAIT 0167

- [1](#)B. 05 KUWAIT 5063
- [1](#)C. 05 KUWAIT 4980
- [1](#)D. 05 KUWAIT 4624
- [1](#)E. 05 KUWAIT 4459
- [1](#)F. 05 KUWAIT 4318
- [1](#)G. 05 KUWAIT 3850
- [1](#)H. 05 KUWAIT 3585

Classified By: Ambassador Richard LeBaron. Reasons 1.4 (b) and (d)

[1](#)1. (C) Begin Summary: During a February 1 meeting with Econoff, the Kuwait Fund's (KFAED) Regional Manager for Arab Countries outlined details of an informal December 2005 agreement with the Iraqi Planning Ministry on allocation of the GOK's \$560M assistance package for Iraq; pointed to renewed KFAED bilateral assistance (\$17M loan) to Lebanon; urged acceptance of Hamas' democratic victory; and voiced skepticism about the viability of the Strategic Investment Initiative as a potentially duplicative and inflexible assistance mechanism unlikely to garner practical GCC support. End Summary

[1](#)2. (SBU) On February 1, Econoff met with Marwan Al-Ghanem, the Regional Manager for Arab Countries at the Kuwait Fund for Arab Economic Development (KFAED) to discuss GOK assistance to Iraq, the Palestinian Territories, Lebanon and the Strategic Investment Initiative (SII).

Iraq

[1](#)3. (C) On Iraq, Al-Ghanem confirmed that a December meeting in Jordan with representatives from the Iraqi Planning Ministry resulted in an informal agreement on the allocation of the GOK's \$560M assistance package (\$440M in loans and \$120M in grants) for Iraq. However, Al-Ghanem voiced concern that a new permanent Iraqi government may want to renegotiate the terms of the agreement and therefore lead to a delay in project implementation. Al-Ghanem indicated that the GOK would consider disbursing funds after a new permanent Iraqi government was in place.

[1](#)4. (SBU) According to Al-Ghanem, the December agreement calls for the following allocation of GOK assistance to Iraq (all funds to be administered by KFAED):

\$440M in concessionary loans to be allocated as follows (no funds disbursed):
--\$200M for power station in northern Iraq (total project cost estimated at \$850M) to be disbursed in two \$100M tranches over two GOK fiscal years (no start date)

--\$100M for schools (no locations specified)
--\$100M for water sewage/desalination projects (no locations specified)
--\$40M for rehabilitation of railroad system

\$120M in grants for health/education to be allocated as follows (no funds disbursed):

--\$30M for schools in the south (per ref C, consultants hired and feasibility report expected in March)
--\$30M for four medical storage facilities and one mobile surgical facility
--\$36M for water/sewage projects in Sadr city
--\$24M for schools in northern and middle provinces, including Baghdad

15. (C) Al-Ghanem also suggested that a new "non-Shia" (Sunni-Arab) Planning Minister could conceivably reject the proposed allocation of \$36M for sewage projects in predominantly Shia Sadr City. Al-Ghanem added that he was in email contact with the Iraqi Planning Ministry to address outstanding details.

16. (C) Regarding the proposed \$850M power station in northern Iraq, Al-Ghanem conveyed GOK reservations about the total cost estimate, citing concerns of price inflation. He explained that although the ITG had asked the original project contractor, Siemens, to resume operations following the demise of the Saddam Hussein regime, the agreement was subject to securing financing from prospective donors, including the GOK, Saudi Fund, and Arab Fund.

17. (C) Al-Ghanem added that the ITG was keen on having a conference with potential Arab donors to finalize the terms of the funding for the power project. According to

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Al-Ghanem, the conference will likely take place in Kuwait, no earlier than June, following the anticipated April board meeting of the Arab Fund. (Note: Iraqi membership in the Arab Fund has been suspended since 1991 due to approx. \$103M in outstanding arrears.)

Palestinian Authority

18. (C) Al-Ghanem offered no indication of new GOK assistance to the Palestinian Authority following the recent Hamas victory. Expressing his own personal opinion, Al-Ghanem stated that the United States had to accept the democratic outcome of the elections as the political will of the Palestinian people. Econoff noted that free and fair elections were only one defining aspect of a democratic process. Al-Ghanem suggested that Arab countries "perhaps had not supported the Palestinians enough" over the last few years and that Arab states would intervene politically to mediate tensions between Fatah and Hamas "if asked" to do so by the Palestinians. (Note: KFAED has not been the main implementor of Kuwaiti funding for the Palestinians. The funding has mostly been funneled through the Islamic Development Bank and the World Bank.)

Lebanon

19. (C) On assistance to Lebanon, Al-Ghanem noted that KFAED bilateral assistance was resuming after four years following the recent visit to Lebanon by a KFAED project appraisal team reviewing an existing water supply project. According to Al-Ghanem, following the submission of the team's report, KFAED will award a supplemental bilateral loan to Lebanon valued at 5 million Kuwaiti Dinars (approx. \$17M) to augment the KFAED's original 10 million Kuwaiti Dinar (approx. \$34M) loan.

Strategic Investment Initiative

¶10. (C) Econoff briefed Al-Ghanem on the Strategic Investment Initiative, outlining its merits and rationale. Al-Ghanem, conveying skepticism, noted that the initiative's success was dependent on overcoming GCC countries' concern about duplication of effort between a new assistance initiative and their existing country assistance mechanisms, like KFAED, and the potential loss of control and flexibility over assistance funds.

¶11. (C) Al-Ghanem explained that GCC member states have demonstrated a willingness to "strategically pool" resources in response to natural disasters such as the earthquakes in Iran (Bam) and Turkey and the recent tsunami. He considered it unlikely for the GCC to support a similar collective assistance approach to non-disaster scenarios such as Iraq, Afghanistan, Lebanon and the PA.

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LeBaron